

Page Denied

SECRET

Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

20 September 1989

Western Assistance for Poland [REDACTED]

25X1

Summary

We estimate that a Western assistance program designed to maximize the chances of success of a Polish reform program probably would require about \$5 billion over the next three years. The US probably would have to count on contributing about twenty-five percent of the tab--\$1.25 billion--to win our Allies' agreement to make up the difference. [REDACTED]

25X1

This typescript was prepared by the Office of European Analysis. Comments and queries are welcome and may be directed to the Director, Office of European Analysis [REDACTED]

25X1

EUR M 89-20174

25X1

[REDACTED]
SECRET

25X1

SECRET

25X1

DISCUSSION

Any effective Western economic assistance program for Poland must serve both economic and political ends. It must be large enough to help the government soften the economic pain of what will be in any event a distressing process. Perhaps more importantly, it must be packaged in such a way as to have the maximum impact on the mood of the Polish people. A psychological transformation from apathy and cynicism to hope is essential to the success of reform.

25X1

Western assistance also must be keyed to an effective Polish reform program. These reforms must reduce the government budget deficit, eliminate consumer and industrial subsidies, allow market forces to determine prices, permit bankruptcies of inefficient enterprises, provide for real interest rates, and let the expected rate of return affect investment decisions.

25X1

Tied to aid which could be obtained from multinational and other sources, this could form an impressive package. Poland could receive:

- \$1 billion per year from the International Monetary Fund;
- \$325 million per year from the World Bank for development loans;
- Rescheduling, and perhaps consolidation, of all loans to the Paris Club with payments delayed at least three years, and a similar payments moratorium with commercial banks would amount to roughly \$4 billion a year.

This would bring the total package up to a bit more than \$20 billion.

25X1

The additional Western assistance amount should be divided into two packages. The first part would be \$1.5 billion of agricultural assistance, both food stuffs and agricultural inputs, that would be provided the first year as the economy adjusts to free-market prices on food. The remaining \$3.5 billion would be provided equally over three years and should be used to help Poland finance the transition to a market economy.

25X1

The total aid package would allow Poland to increase its hard currency imports by roughly \$12 billion over the three-year period. In the earliest year this sum would be spent largely on consumer goods, but the West needs to press Poland to sharply increase the allocation to investment goods in later years.

25X1

SECRET

25X1

SECRET

25X1

We believe the West Europeans would be willing to fund the bulk of the additional \$5 billion--on top of debt rescheduling--as long as the Poles were implementing fundamental reforms. The West Europeans realize their political and economic stake in the East is greater than ours and would therefore expect a major role in formulating the exact contents of the program. The United States would probably have to pick up about a quarter of the tab--a bit more than \$400 million a year--to obtain sufficient commitments from our Allies.

- The EC is open to the idea of further food aid, although Embassy reporting indicates EC officials want to shift the emphasis to food production items such as fertilizers and seed.
- We believe the Germans could be counted on to provide over half the non-food aid. Although bureaucratic and political squabbling has delayed conclusion of Bonn's aid package for Warsaw, [redacted] increasing pressure within the West German government for a generous offer. [redacted]

25X1

25X1

[redacted] We believe that Bonn might prefer casting its contribution as part of an international initiative, giving the government more protection from criticism by some domestic groups about "excessive generosity" to the Poles. Nonetheless, Bonn undoubtedly will remind the West that assistance to Poland should be part of a comprehensive program including Hungary.

25X1

- A US initiative for more aid would pressure Paris and London into backing up their rhetoric on the need to seize the "historic opportunity" in Poland with money. Annual outlays of about \$100 million each are possible, in our view. Some of the smaller European countries that have been in the vanguard of the food aid program--Austria and Switzerland--also would participate on a smaller scale.
- Japan is likely to be one of the last to commit to such a program because it does not see Poland as important to its economic and political interests. Nonetheless, Tokyo would probably chip in \$100 million in credits tied to Japanese exports. [redacted]

25X1

SECRET

25X1